United Nations A/54/454

General Assembly

Distr.: General
13 October 1999

Original: English

Fifty-fourth session
Agenda item 122
Improving the financial situation of the United Nations

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Report of the Secretary-General

I. Introduction

1. The present report updates information on the financial situation of the United Nations provided in the report of the Secretary-General of 24 March 1999 (A/53/514/Add.2). It also provides information on the financial situation of the Organization as at 30 September 1999 and cash flow projections for the remaining months of 1999.

II. Review of the financial situation at 30 September and prospects to 31 December 1999

A. Overview

2. Aggregate assessment levels comprising the regular budget, peacekeeping and the international tribunals for Rwanda and the former Yugoslavia totalled over $4 billion in 1995. These levels decreased to slightly above $2 billion in 1998, are projected to rise to $2.4 billion by the end of 1999 and may rise still further to $2.8 billion during the biennium 2000-2001. Within these aggregate amounts, regular budget assessment levels have been decreasing in recent years as the cumulative effect of measures to create simplified structures and a leaner and more efficient Secretariat have taken effect. Real costs have been reduced to absorb inflation. Additional mission costs have also been absorbed and the level of regular budget appropriations today is lower than in 1994. Peacekeeping assessments have decreased from their peak of $3.2 billion in 1994 to $907 million in 1998. Peacekeeping assessment levels in 1999 are expected to include the start-up phase of missions in Kosovo, East Timor and Sierra Leone and it is currently assumed that higher amounts will be reflected for these missions in the biennium 2000-2001. Tribunal assessment levels have been increasing and it is expected that their total budget levels in 2000 will approach $200 million.

3. The analysis in the present report is based on actual results for the months of January through September 1999, and a preliminary estimate or a range of estimates for the remaining three months of 1999. In some instances, Member States have provided the Secretariat with estimates of their intended payments of assessments during the balance of the year.

4. The three indicators that are key to assessing the Organization's financial situation are unpaid assessments, available cash and amounts due to Member States. Details on each of these three indicators are contained in the paragraphs that follow.

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B. Unpaid assessments

5. The prompt collection of assessments is the bedrock of United Nations financial stability. There are no other funds with which to maintain the Organization, or to carry out the mandates entrusted to the Secretary-General by Member States. The Organization has no capital, limited reserves and cannot borrow from external sources. As a result, there is no substitute for the prompt collection of assessments. It is thus the prime requirement to achieve a firm financial base.

6. As at 30 September 1999, unpaid assessments aggregated $2,510 million and have remained at a high level for the past four years. During the past decade, unpaid regular budget assessments have moved in a much narrower range than those for peacekeeping, while unpaid assessments for the international tribunals have increased each year since they were first authorized for 1995. Of the assessments unpaid at 30 September, $644 million was for the regular budget, $1,831 million for peacekeeping and $35 million for the international tribunals. The aggregate of $2,510 million is slightly more than a year earlier, but quite a bit more than two years ago, with most of the increase due to the growth in peacekeeping arrears.

7. The absolute amount of uncollected assessments is of great concern. In relative terms the picture is worse. Uncollected assessments at 30 September exceeded by 23 per cent the amount of total assessments made during the first nine months of 1999. The same adverse ratio existed for the last two years, but the excess in 1997 was only 7 per cent. In other words, uncollected assessments at 30 September 1999 represent, in dollar terms, about 12 months of assessments, or approximately one year of uncollected assessments.

Regular budget

8. Unpaid regular budget assessments as at 30 September in any year are usually higher than the amounts owed at 31 December, owing in part to the fact that payments for current assessments by the major contributor only begin when that Member State starts its new budget year on 1 October. Accordingly, it is expected that the peak level of regular budget assessments shown as at 30 September 1999 will decrease by the end of the year.

9. As at 30 September 1999, the United States of America owed 81 per cent of the outstanding aggregate regular budget amounts. Two other Member States among the next 14 principal contributors, Brazil and Argentina, had outstanding regular budget contributions amounting to 9 per cent of the total outstanding. It is anticipated that these three Member States will make some additional regular budget payments by 31 December 1999. Of the remaining 170 Member States, 77 owed 10 per cent of the uncollected regular budget total.

10. Regular budget contributions received in 1999 ($857 million) were actually somewhat lower than at the same time last year. This amount comprised payments of both the current and prior years' assessments. The aggregate amount of regular budget contributions that were received represented 79 per cent of the $1,084 million assessed for 1999. That percentage is down from corresponding figures of 80 per cent and 88 per cent for 1998 and 1997.

11. At 30 September 1999, 104 Member States had paid their regular budget contributions in full for 1999 and all prior years, showing continuing improvement over previous years. It is hoped that the final number will be higher than 117, which is the total number of Member States paying in full all regular budget assessments at the end of 1998.

Peacekeeping

12. Total outstanding peacekeeping amounts at the end of September 1999 totalled $1,831 million. This has shown a steadily rising trend since 1990. In fact, as at 30 September 1999, unpaid peacekeeping assessments were above the 1995 level, despite a significant decrease since then in the level of peacekeeping activity. It had been anticipated that Member States would take advantage of the lower level of current peacekeeping assessments to reduce their peacekeeping arrears but, at the aggregate level, that did not happen.

13. At 30 September 1999, the United States owed 60 per cent of total outstanding peacekeeping assessments, Ukraine owed 11 per cent and the Russian Federation 6 per cent. Unpaid United States assessments, as at 30 September 1999, have increased from a year ago, while Ukraine's level remains the same and that of the Russian Federation has decreased.

14. Five years ago the unpaid arrears of the Russian Federation stood at $569 million. Today's level reflects a reduction from that amount of over 80 per cent.

International tribunals

15. Unpaid assessments for the international tribunals are increasing. In 1999, the unpaid balance increased by $13 million from the previous year, an increase of 75 per cent from two years ago. A first warning about this increasing debt was made a year ago. It now appears that unpaid assessments will increase further, as assessment levels for

the tribunals will probably be increasing when the next cycle of budgets is considered.

Summary

16. In summary, the magnitude of unpaid assessments effectively eliminates the financial base of the Organization. The assessment system was developed to produce cash resources at the beginning of the period when mandated activities were to be carried out using those resources. In practice, however, only a partial resource level has been provided. Thus, the absence of financial flexibility endangers the Organization's very existence and leaves a globally important organization managed without the predictable, assured financial support of its members.

C. Available cash

Regular budget

17. The cash position of the combined General Fund, including the regular budget and reserves, at the end of 1998, was a negative $40 million. While significant, this end of year figure was an improvement over even larger cash deficits experienced at the end of 1996 and 1997. Several factors caused this improvement, most notably the significant payment of $197 million made in November 1998 by the United States. That amount was sufficient to lower that Member State's unpaid assessments to an amount less than the aggregate of assessments rendered in the prior two years.

18. By the end of January 1999, cash inflows from the timely payments of 1999 regular budget assessments permitted the repayment of amounts borrowed from peacekeeping funds and eliminated the regular budget cash deficit. Regular budget payments received during the early months of 1999 permitted the cash position to remain positive until July, when it became necessary to borrow from peacekeeping accounts. In September, payment by Japan of the $155 million balance of its regular budget contribution allowed payment of peacekeeping funds borrowed to that date, resulting in a positive cash position in September.

19. Projections for the remaining three months of 1999 were based on discussions with several Member States about the level and timing of payments that may be expected for the regular budget, and, as a result, a number of additional payments have been included in the projection. Nevertheless, it is still likely that the Organization will be faced with a negative regular budget cash balance of $60 million at the end of October and $162 million at the end of November. The position at the end of December, however, remains uncertain.

20. The final outcome will depend largely on how much will be received from the United States beyond previously appropriated funds, the payment of which, it is understood, will be made before the end of 1999. If no further payment is made by that country by the end of the year, regular budget cash will be a negative $248 million. This possibility is not considered likely, but it does serve as a base case against which to consider more likely outcomes.

21. While past experience confirms that the United States does make substantial payments late in the year, the United States has informed the United Nations that enabling national legislation for its fiscal year, which begins on 1 October 1999, has not been fully enacted. Under these circumstances, the United States cannot give definitive assurance that all payments will, in fact, be made.

22. As a result, two different year-end scenarios have been projected. Scenario 1 forecasts regular budget cash at the end of year 1999 by projecting an end of year payment by the United States equivalent to that made in the last weeks of 1998, that is approximately $197 million. Scenario 2 assumes that the United States will pay sufficient regular budget and peacekeeping assessments to reduce its total obligations to the Organization to the equivalent of the most recent two-year assessments, that is $350 million. It is further assumed that, of this amount, $250 million will be applied to regular budget assessments and $100 million to peacekeeping.

23. Under scenario 1, it is forecast that regular budget cash resources will be in a deficit position of around $48 million, similar to the year-end position in 1998. Under scenario 2, cash balances available for the regular budget would be a positive $2 million.

24. Were the payment assumed under scenario 2 received, for the first time since 1993, there would be no need to cross-borrow peacekeeping funds to relieve the regular budget cash deficit. It should be noted, however, that at this stage no firm projection can be made.

Peacekeeping

25. In the Secretariat's October 1998 forecast, the level of peacekeeping activity for 1999 was initially forecast at about $900 million. By March 1999, the forecast was reduced to $650 million. Diminishing cash balances were also foreseen, from $768 million as at 1 January to $716 million by 31 August 1999. The pattern was also expected to be somewhat predictable, with peak levels of cash inflow

following the semi-annual pattern of peacekeeping assessments for the established missions. In the operational situation then prevailing, it was anticipated that by year end 1999 peacekeeping cash would have been at a level close to the beginning of the year.

26. That situation is still expected, at least in the short term. Peacekeeping cash is now forecast at $749 million at 31 December 1999, compared to $768 million at the beginning of the year. This means that the impact of any new missions will be felt only marginally until closer to the end of the year. At present, the cash impact of a first assessment made for the United Nations Interim Administration in Kosovo (UNMIK) has only begun. Budgets for significant follow-on assessments are only now being finalized and assessments have not yet been authorized for Sierra Leone or East Timor.

27. With this in mind, the Secretariat forecasts a peacekeeping cash balance of $749 million at 31 December 1999. This does not, however, reflect any additional arrearage payments from the United States for peacekeeping missions. Scenario 2, however, includes an amount of $100 million in additional payments from the United States if that Member State is to reduce its total obligations to the Organization to the equivalent of the most recent two years assessments. The United States did not make such an arrearage payment in 1998.

28. As a result of this uncertainty about arrearage payments by the United States, the Secretariat cannot make a precise forecast. If, however, a further $100 million arrearage payment is made, peacekeeping cash would rise to $849 million, the highest amount in some time.

29. Without cash the Secretary-General is unable to act, a situation illustrated by the example of the United Nations Interim Administration in Kosovo (UNMIK). This was mandated by the Security Council on 10 June 1999. An assessment of $125 million was authorized by the General Assembly on 28 July to cover start-up costs and the assessment letter for UNMIK was sent to all Member States on 30 July. Three months later, however, on 30 September 1999, only 30 Member States had paid their assessments for a total receipt of $35 million, just over 25 per cent of the necessary financing for start-up costs. As this demonstrates, while new missions mean higher levels of peacekeeping activity, they do not necessarily translate into higher levels of cash.

Combined cash situation

30. Combined cash balances at the end of 1998, including regular budget, peacekeeping and the international tribunals, were higher than in 1996 and 1997. This improved combined cash position was largely due to increased end of year payments in 1998 by the United States. Whether and to what extent such payments will be made by the end of 1999 is not yet confirmed by that Member State. In these circumstances, and following the scenarios previously outlined, scenario 1, assuming additional amounts of approximately $197 million by the end of 1999, would result in combined cash of $727 million; scenario 2, assuming additional payments of $150 million, beyond those paid in 1998, of $150 million, would result in a combined cash increase to $877 million.

31. In the case of scenario 1, cross-borrowing from peacekeeping funds would still be necessary as at 31 December 1999 to cover the projected regular budget cash deficit of $48 million. Scenario 2 does not entail the need for cross-borrowing. The elimination of the need to cross-borrow is a step in the right direction. The step is a small and tentative one, however, and it disappears if scenario 2 does not take place.

Summary

32. In summary, the Organization continues to have no cash reserves, it has limited cash on hand with which to begin new missions and it has limited financial flexibility and would have none at all if full reimbursements were paid to troop and equipment providers, instead of retaining the related cash to provide an adequate cash base for the Organization.

D. Amounts owed to Member States

33. Without adequate cash, the debt to Member States for troops and contingent-owned equipment cannot in practice be paid, certainly not in full.

34. Amounts owed to Member States at the beginning of 1999 totalled $872 million. It is estimated that at year-end 1999, the United Nations will owe $729 million to those Member States that have provided troops and equipment to the Organization, an amount lower than the level of over $800 million experienced during most of the past few years. This decrease, however, was mainly due to downward revaluations of the debt, not payments by the United Nations. In this connection, the Organization recently negotiated a revaluation of equipment owed to one Member State by some $127 million. This revaluation should be seen in the context of the previous upward revaluations of earlier years which amounted to over $200 million.

35. In addition, and in accordance with the Secretary-General's stated goal to pay the full amount of obligations received by the Organization during the year in which those obligations are incurred, every effort was made to pay this year's incurred costs. Obligations in 1999 for troops and equipment are expected to total $141 million. Payments totalling $80 million to troop and equipment contributing countries have been made and, in the weeks ahead, it is expected that additional payments of $61 million will be made, for a total of $141 million.

36. An arrears payment of $16 million was also received from the Russian Federation. This will also be paid, since it is the Secretary-General's intention to make an additional reimbursement payment equal to any arrearage contribution received. This arrearage contribution is applicable to the United Nations Operation in Somalia (UNOSOM), a mission where reimbursement to Member States has been particularly protracted. Thus, total reimbursement payments are expected to total $157 million.

Summary

37. Even with these payments and the downward revaluation, however, the Organization's debt remains high. Given competing cash demands on the Organization, and the present inadequate level of cash resources, future liquidation of troop and equipment obligations is almost entirely dependent on the collection of peacekeeping assessments now long in arrears. In summary, one group of Member States is financing another group, with no relief in sight.

III. Conclusion

38. There were some bright spots in the early months of 1999 but, on balance, the current situation is only a little better than a year ago. The financial situation of the United Nations remains grim and there remains a severe deficit in the Organization's financial and operational flexibility to respond promptly and efficiently to new challenges.